

MANAGEMENT LETTER COMMENTS

2005

Financial Management

The financial management letter comments can be categorized as recommendations for:

- opportunities to increase revenues
- opportunities to reduce costs
- opportunities to increase efficiency
- opportunities to improve accounting practices and controls
- opportunities to improve non-financial controls
- communication of isolated errors noted in financial and information systems

Medicaid, Department of Health and Human Services

1. Medicaid provider cost settlement data is not recorded in the Medicaid Management Information System (MMIS).

During the implementation of the new MMIS, the Department of Health and Human Services, Office of MaineCare Services (OMS) encountered problems that prevented the recording of provider cost settlement results in the system.

We recommend that OMS record cost settlement data on MMIS. Furthermore, we recommend that OMS periodically reconcile the subsidiary records of receivables and payables on MMIS to the totals maintained on the statewide accounting system.

2. Medicaid appropriation accounts include non-Medicaid activity.

The Department of Health and Human Services, Office of Management and Budget included non-Medicaid related activity within Medicaid accounts. This has resulted in difficulties in determining the source and application of funds, which complicates the department's financial monitoring and reporting responsibilities.

We recommend that the department remove the non-Medicaid activity from the Medicaid accounts.

3. Requests for federal funds did not consider all costs.

The Department of Health and Human Services, Office of Management and Budget did not request sufficient federal cash to cover Medicaid costs because of a coding variance. The Medicaid Administrative account had an average negative cash balance of \$7.3 million for all but the last month of the State's fiscal year.

We recommend that the process for determining requests for federal cash be improved so that the State can maximize interest earning opportunities of State funds. We noted that corrective action was implemented by the end of the fiscal year.

Labor, Department of Administrative and Financial Services

4. Reconciliations need to be performed to ensure proper fiscal accountability of unemployment tax revenues.

The General Government Service Center B, that provides services for the Maine Department of Labor, did not perform monthly reconciliations of the Maine Automated Tax System to their accounting records from December 2004 through June 2005.

We recommend that reconciliations be performed each month.

5. Unemployment compensation tax receipts were incorrectly recorded.

The General Government Service Center B, which provides services for the Maine Department of Labor, incorrectly recorded unemployment tax receipts as a transfer on the State's accounting system rather than as revenue.

We recommend that procedures be implemented to ensure that revenue is properly recorded.

6. Federal expenditures recorded in a subsidiary accounting system were not reconciled in a timely manner to the State's accounting system.

The General Government Service Center B did not reconcile federal expenditures recorded on its internal accounting and reporting system to the State's accounting system in a timely manner. The June 2005 account reconciliation for the Unemployment Insurance Grant identified unresolved reconciling items that related to the current and prior fiscal years.

We recommend that reconciliations be performed timely and that the reasons for and dispositions of outstanding reconciling items be determined in a reasonable amount of time.

Office of the State Controller

7. The Schedule of Expenditures of Federal Awards (SEFA), prior to audit, contained errors.

- a. Vocational Rehabilitation Grant amount reported on the SEFA included costs from other grants (General Government Service Center B)

b. Homeland Security Grant funds of “pass-through funds” provided to subrecipients were not reported on the SEFA (General Government Service Center A)

Errors contained on the SEFA impact the planning of the Single Audit. If the SEFA is not accurate then federal programs might not be identified as those that require audits, or may be incorrectly identified as programs that do not need audits. In either case, this would result in loss of efficiency and effectiveness in performing the Single Audit.

We recommend that additional supervisory review be performed to ensure that an accurate SEFA is available before the start of the Single Audit.

8. Investments were incorrectly categorized as current investments rather than long-term investments on the draft financial statements.

The Office of the State Controller misclassified investments as current rather than long-term on the draft financial statements. The error occurred because “call dates” of the investments were used to classify them rather than the maturity or “likely” call dates of the investments.

We recommend that the State’s investment advisor be consulted to determine which investments are likely to be called so that the investments can be properly classified on the financial statements.

9. Payroll controls need to be strengthened to prevent overpayments to employees.

In our review of payroll processed for the fourth quarter of 2005, we found seven employees that incorrectly received additional pay. Although there are controls to prevent overpayments at the agency level, these seven instances indicate the need for additional controls and reviews at the Office of the State Controller.

We recommend that additional controls be implemented to prevent overpayments to employees.

10. Passwords need to be changed in accordance with State policy.

The Office of the State Controller did not establish a procedure to ensure that user passwords to the payroll system be changed every 120 days, as required by the State’s security policy.

We recommend that a procedure be implemented to ensure that passwords are changed in accordance with the State’s security policy.

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Federal Program Compliance

The federal compliance management letter comments below are categorized by federal program compliance area.

Allowable Costs / Cost Principles

This federal compliance area provides general criteria that must be followed to ensure allowability of costs under federal awards.

1. When retroactively adjusting financial records to reflect the correct funding source for Adoption Assistance program clients, the Department of Health and Human Services, Office of Child and Family Services did not transfer \$4,072 from the State account to the federal account for four clients eligible for Title IV-E funding. Conversely, the DHHS did not retroactively transfer \$2,056 from the federal account to the State account for an ineligible client. The net of these errors resulted in the State overpaying \$2,016.

We recommend that additional review procedures be implemented to ensure that costs are being correctly charged to the State and federal accounts for the Adoption Assistance Program.

2. The Health and Human Services Service Center did not have adequate controls in place to ensure timely processing of invoices for the Child Support Enforcement Program. Of 25 invoices examined, 13 (52 percent) were paid three to nine months after the invoice date.

We recommend that the Service Center develop procedures that will ensure timely processing of invoices.

3. The Department of Education, Special Services Team did not charge the 21st Century Community Learning Centers program for payroll costs based on actual hours worked, which is required for federal compliance. The amount charged to the 2005 grant was approximately \$9,000.

We recommend that procedures be implemented to ensure that payroll costs are based on actual hours worked to prevent potential questioned costs. Questioned costs could result in the State paying the federal government for the amount of disallowed payroll costs.

Special Tests and Provisions

This federal compliance area addresses specific requirements for special tests and provisions that are unique to each federal program.

4. The Department of Health and Human Services, Office of MaineCare Services did not obtain prior written approval for an enhanced federal participation rate for a management services contract related to the Medicaid Claims Management System.

We recommend that, in the future, prior written approvals for enhanced federal participation rates be obtained from the applicable federal agency.

Cash Management

This federal compliance area requires that reimbursements for expenditures be requested from the federal government only after the State has incurred the expenditure. Furthermore, the time between receiving federal funds and spending the funds is specifically regulated

5. The General Government Service Center B did not draw down cash in accordance with federal requirements for the Homeland Security Grant Program. As a result, cash balances exceeded the immediate cash requirements for the program.

We recommend that the Service Center establish written procedures to insure compliance with cash management requirements.

Matching, Level of Effort, Earmarking

This federal compliance area requires State matching contributions of a certain amount or percentage to match federal awards. Level of effort requires that a specified level of service be provided by the program. Earmarking specifies the maximum or minimum amount or percentage of a program's funding that must be used for specific activities.

6. The General Government Service Center B did not meet the federal match requirements of the Vocational Rehabilitation Grant which resulted in \$978,693 being refunded to the federal government. The primary cause of this noncompliance with match requirements was inadequate accounting of federal expenditures for various programs.

We recommend that a chart of accounts, specific to the Vocational Rehabilitation program, be used to prevent the commingling of various federal and State grant funds. The use of a "program specific" chart of accounts would allow for a complete analysis of expenditures by federal program which would help ensure that correct amounts of State funds are used to meet program matching requirements.

7. The Department of Education, Special Services Team did not have controls in place to ensure compliance with earmarking requirements for the State administrative portion of the 21st Century Community Learning Centers Grant. This could result in potential disallowance of costs and return of money to the federal government. Based on a review of 2003 costs it appears that the prescribed spending amounts were met.

We recommend a separate accounting be made for the State administration and the State activity portions of the grant to ensure compliance with the federal earmarking requirements.

Period of Availability

This federal compliance area specifies the time period during which an entity may use federal program funds.

8. The General Government Service Center B did not have procedures in place to ensure federal funds for the Trade Adjustment Assistance Program were drawn down in the correct grant year. Although, the department's reconciliation process identified the errors, they were not corrected for several months after they occurred.

We recommend that procedures be strengthened to ensure that federal funds are drawn from the appropriate fiscal years' awards to prevent non-compliance with period of availability federal program requirements.

Subrecipient Monitoring

This federal compliance area requires an entity that receives federal funds to monitor subrecipients of pass-through federal money in accordance with program requirements.

9. The Department of Defense, Veterans and Emergency Management (DVEM), Maine Emergency Management Agency did not have adequate controls to ensure subrecipients of the Homeland Security Grant Program were being properly monitored. A plan was not in place to ensure that subrecipients submitted audit reports to DVEM. Furthermore, DVEM did not render management decisions on audit findings within six months after receipt of subrecipient audit reports as required.

We recommend that DVEM develop procedures to ensure compliance with subrecipient monitoring requirements.

Procurement and Suspension and Debarment

This federal compliance area requires that procurement procedures be the same for contracts that use federal funds as those used for non-federal fund contracts. Furthermore, it requires the use of procedures to ensure that the State does not enter into contracts with parties that are suspended or debarred from performing work that is federally funded.

10. The Department of Environmental Protection, Office of Management Services did not retain documentation of its review of the system that contains the names of suspended or debarred vendors for contracts relating to the Homeland Security Grant Program.

We recommend that documentation be maintained by department personnel so that the audit of this area can verify compliance with procurement and suspension and debarment requirements.

11. The Department of Marine Resources (DMR), Marine Patrol did not have adequate controls to ensure compliance with procurement and suspension and debarment requirements for contracts relating to the Homeland Security Grant Program. As a result, the standard suspension and debarment certification was not included as part of a contract.

We recommend that DMR implement procedures to ensure that the suspension and debarment requirements are met.

Reporting

This federal compliance area requires that recipients of federal funds report financial and programmatic information in a timely manner, in accordance with program requirements.

12. The Department of Defense, Veterans and Emergency Management (DVEM), Maine Emergency Management Agency did not have adequate controls to ensure accurate financial reporting of Homeland Security Grant expenditures. Errors noted in the financial reports resulted in expenditures being over reported by a net amount of \$148,726. Of the twelve financial reports tested, we noted errors in eight reports.

We recommend that DVEM improve their procedures to ensure accurate financial reporting.